

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

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FM AMEMBASSY TOKYO

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INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: RECENT FOREX DEVELOPMENTS

1. SUMMARY: YEN/DOLLAR RATE ON TOKYO FOREX MARKET HAS
REMAINED IN YEN 300-301 PER DOLLAR RANGE SINCE MID-DEC.
HOWEVER, TOWARD YEAR-END THIS RATE WAS MAINTAINED BY VIG-
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OROUS BOJ INTERVENTION. HEAVIEST PRESSURE ON YEN WAS DUR-

ING WEEK OF DEC 23-27, WHEN SPOT VOL ROSE TO \$634 MIL, WELL ABOVE NORMAL WEEKLY VOL OF APPROX. \$350-\$400 MIL, BOJ SUPPLIED NEARLY TWO-THIRDS OF DOLLAR SPOT VOLUME IN THAT WEEK. BOJ OFFICIAL ATTRIBUTES YEAR-END SURGE OF PRESSURE ON YEN TO ANTICIPATION BY SOME TOKYO BANKS THAT BOJ MIGHT, LIKE A YEAR EARLIER, CHANGE ITS INTERVENTION POINT. WITH OPENING OF NEW YEAR, HOWEVER, NEED FOR BOJ SUPPORT HAS DECLINED SHARPLY. OFFICIAL SEES REDUCED DOLLAR DEMAND DURING WEEK OF JAN 6-10 AS INDICATION THAT MARKET NOW CONVINCED RATE LIKELY TO STAY NEAR PRESENT LEVEL. END SUMMARY.

2. RECENT DEVELOPMENTS IN JAPAN'S FOREIGN EXCHANGE MARKET APPEAR TO BE DOMINATED BY THE PROSPECT OF THE SEASONAL DECLINE IN EXPORT RECEIPTS AND FOREIGN EXCHANGE TRADERS' RESPONSE TO THIS PROSPECT. SINCE JAN EXPORTS USUALLY DROP ABOUT 25 PERCENT AVERAGE MONTHLY VALUE. TRADERS NORMALLY EXPECT SOME WEAKENING OF THE YEN OR FOREIGN EXCHANGE PRESSURE ON IT. TIGHT FOREX RESTRICTIONS ON BANK AND DEALER OPERATIONS LIMIT ABILITY OF PRIVATE MARKET ARBITRAGE TO SMOOTH FLUCTUATIONS IN SEASONAL DOLLAR DEMAND, REQUIRING BOJ TO FILL "GAP" IN DOLLAR SUPPLY. BOJ HAD ANTICIPATED THAT ABOUT \$1,000 MIL WOULD BE NEEDED TO MEET JAN 1975 SEASONAL REQUIREMENTS.

3. CONTRARY TO EXPECTATIONS THE BANK OF JAPAN SOLD \$400 MIL DURING WEEK OF DEC 23-27 IN ORDER TO MAINTAIN AN EXCHANGE RATE CLOSE TO 300 YEN PER DOLLAR. ONE BANK OFFICIAL'S VIEW IS THAT FOREIGN EXCHANGE BANKS TOOK A "LONG POSITION" IN DOLLARS, SPECULATING THAT BOJ MIGHT CHANGE ITS INTERVENTION POINT AS IT DID AT THE END OF 1973. OFFICIAL DESCRIBED THIS AS A "SPECULATIVE ATTACK" AGAINST WHICH THE BANK INTERVENED. IN HIS VIEW, THE JAPANESE FOREX BANKS ALLOWED DOLLAR HOLDINGS TO BUILD UP.

4. DURING THE FIRST WEEK OF JAN BOJ HAS ONLY INTERVENED TO A MODEST EXTENT (\$70 MIL) AS THE FOREX EXCHANGE BANKS HAVE GRADUALLY DECREASED THEIR EXCESS DOLLAR HOLDINGS. SIGNIFICANTLY NEED FOR BOJ INTERVENTION HAS DECLINED THROUGH THIS PAST WEEK AND WAS NIL JAN 10. OFFICIAL LIMITED OFFICIAL USE

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INDICATED BOJ PREPARED TO ADD ABOUT \$600 MIL DURING REMAINDER OF JAN SIMPLY TO MEET NORMAL SEASONAL DECLINE IN DOLLAR TRADE RECEIPTS.

5. DURING PAST WEEK (JAN 6-10) CENTRAL SPOT OVERNIGHT RATE RANGED FROM 300.50 TO 300.99, AND ON FRIDAY WAS 300.90. THREE-MONTH FORWARD RATES SHOWED DOLLAR PREMIUM ON THREE-MONTH NARROWING FROM 3.47 PERCENT P.A. ON

MONDAY TO 1.40 PERCENT P.A. ON FRIDAY; SIX-MONTH FORWARD RATE ALSO NARROWED CONTINUOUSLY FROM 2.90 PERCENT P.A. ON MONDAY TO 1.79 PERCENT P.A. ON FRIDAY. BOJ OFFICIAL INTERPRETS THIS DEVELOPMENT AS SIGN OF GROWING MARKET CONFIDENCE THAT RATE WILL REMAIN CLOSE TO PRESENT LEVEL. WEEKLY SPOT VOL WAS DOWN TO \$397 MIL FROM \$634 MIL WEEK ENDING DEC 27. VOLUME IN FORWARD MARKET AT \$434 MIL DOWN FROM \$552 MIL.

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